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Accounting Concepts of Profit (Book Review)

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of the New Deal is so largely made up of lawyers who, naturally enough, are fond of framing laws. It is also unfortunate that most of the lawyers would have difficulty in distinguishing between a fixed asset and a floating kidney." [7]

Page Mr. Justice Douglas, a lawyer and formerly Chairman of the Securities and Exchange Commission! I suspect that he would have no difficulty in making the distinction.

6. "The Republican approach to recovery can only be a deflationary approach. A Republican administration would necessarily reduce taxes, greatly decrease the number of persons on relief rôles [*sic*], and either amend the Wagner Act in such a manner as virtually to repeal it or accomplish the same result by 'packing' the National Labor Relations Board with corporation-minded administrators." [8]

Page Dr. Glenn Frank!

During the coming months, many political tracts, timed for a presidential campaign, will appear in the form of scientific economic analyses. Impartial students should read them most critically. *Dividends To Pay* may be good campaign material.

Page James A. Farley, Chairman of the Democratic National Committee!

Louis Prashker.*

Accounting Concepts of Profit. By Stephen Gilman. New York: The Ronald Press Co., 1939, pp. v, 635.

The McKesson and Robbins scandal shocked the financial and industrial world. It also brought some unpleasant notoriety on the accounting profession. Leaders in the accounting world were quick to bestir themselves into activity to meet the avalanche of criticism leveled against them for their share of responsibility in the scandal, if any validly could be attributed to them. The challenge to the accounting profession was met courageously and frankly. The ensuing discussions and investigations were carried on in the best interests of the public.

The unhappy event has given the profession an opportunity to re-examine the accomplishments of the profession over the past fifty years, and to prescribe its continued development for the immediate future. As a contribution to such an evaluation of accountancy, past, present, and future, the author of this book offers a scholarly analysis which stands out as one of the peaks in accounting thought. It will be read with enthusiasm by accountants, lawyers, and economists.

The author is keenly aware of the changed emphasis in accounting from the balance sheet to the profit and loss viewpoint, evident to him in the materials published and digested by him during the past six years and in his own keen

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[7] P. 255.
[8] P. 263.
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observations. This changed emphasis is the pivotal fact around which the book is built. In the spirit of the true scientist, the author proceeds to establish a philosophy of accounting, if one can speak of a philosophy in relation to accounting. That the author himself has some doubts is evident from his discussion of accounting principles. After a thorough analysis of the contributions of able writers who have attempted to set up accounting principles, he unwillingly concludes, in true scientific spirit, that there are few, if any, principles in the vital sense of this term. His virtual conclusion that accounting may not be considered as a profession, but rather as a business, is a blow to the dignity of a group that has worked unstintingly to elevate the science of accounts into a position of status.

The author fits his discussion of the concept of profit into the background of three basic accounting conventions, the entity convention, the valuation convention, and the accounting period convention. "The entity convention asserts that the unit for which double entry records are kept is an artificial person having possession of or owning certain assets contributed * * * to it by others who are, therefore, its creditors." The valuation convention translates nonhomogeneous assets and claims to assets into financial equivalents or money values. The third convention of an annual accounting period is, in the opinion of the author, responsible for most of the difficult accounting problems. In tracing the historical development of accounting to the Roman slave theory, with the viewpoints of slave and master, the author enables the reader to see clearly the complexities that have been built up under the many influences on accounting, particularly the corporate form of business organization, the development of large scale manufacturing, legal complications, especially income tax laws, and the accountants' own emphasis on the balance sheet audit.

Before considering the nature of profit from the viewpoint of the accountant, the author prepares the ground by a superb summary of the best that has been said and thought in the field of accountancy on such varied subjects as the realization of income, the matching of costs and periodic income, terminology, account classification, proprietorship classification with such concomitant problems as revaluation surplus, earned surplus, and distortions.

If the emphasis in accounting is to be the profit and loss viewpoint, the problem of the accountant is to determine the correct or true profit for an annual period. The author is unusually aware of the difficulties that beset the accountant in such a task. In the chapters on Expenditures, Assets, and Income, and Problems of Expenditure and Cost, the author discusses these difficulties with a clarity, simplification and even humor, that are quite thrilling. Here the author speaks of such problems as imputed costs, reabsorbed costs, joint costs, transferred values, future service and guarantee costs, sales promotion costs, graft, bribery, and espionage expenditures, deferred charges, barter and trade-ins.

The major distortions in any determination of periodic profit are found in the valuation of inventory and fixed assets and the greater portion of the book is devoted to these two items. This writer is not aware of any better presentation nor more lucid treatment of these problems. The valuation of inventory at cost or market, whichever is lower, so readily accepted by business men, has long caused uneasiness among accountants because of the resulting distortion in the determination of profit. Income tax laws may make such a method of valuation desirable, but in the opinion of the author there is no warrant for approving such treatment on the basis of sound accounting. The valuation of fixed assets with its allied problem of depreciation presents a problem that is well nigh unsolvable under any scientific standards. Accountants, the writer believes, are aware of their own deficiencies in the contributions they have been able to make towards this tantalyzing question. Perhaps an engineering training will some day aid the accountant in solving this problem. The author feels that the accountant has relied too much on the engineer whose point of approach has seldom been that of the accountant.

The writer was quite fascinated by the author's analysis of assets as deferred charges. He says, "all assets except cash may be considered deferred charges, *i.e.*, some of them are deferred charges against future income, others are deferred charges to cash". On page 301, he sets up a balance sheet under such a classification. The set-up is interesting from an analytical point of view. The treatment of investments is striking; investments in stocks are considered by him as a deferred charge to future income, while an investment in bonds is a deferred charge to cash.

Periodically, the accounting profession and the business world need an intelligent summary of accounting developments. Even simple concepts require re-analysis. This book definitely furnishes the reader with a wealth of information. The presentation is scholarly as well as practical. While the book is written in a style that is simple and readable, the reader is at all times aware that the material he is absorbing is significant and profound. One concludes that accountancy is really a profession; that there is an underlying philosophy of accounting which will develop as modern business more and more places responsibility for its own growth in a capitalist economy in the hands of a group ready to help it grow in the interests of a democratic society. One regrets that there were only 611 pages to the book.

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LAW, THE STATE, AND THE INTERNATIONAL COMMUNITY. Two Volumes. By James Brown Scott. New York: Columbia University Press, 1939, Vol. I, pp. xxiv, 613; Vol. II, pp. vi, 401.

To a reader of these volumes, it must seem unmistakably clear why all the ambassadors of peace in Europe wend their way to the Vatican. Lawlessness among nations can be stifled only by the laws of mechanical force, which mean war, or the natural laws of reason, which mean peace. As is so ably pointed out by the author, the Vatican for centuries has been the promulgator as well as the interpreter of the law of reason, which is the natural law, which in turn is the law of God. Divorced as it is from local and territorial law so often conceived in greed and avarice, there seems to be no better arbiter of man's disputes than the natural law, the first principle of which, according to St. Thomas, is that "good is to be done and ensued, and evil is to be avoided." The

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